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# Standard Setting Panel Discussion

Convergence of Accounting and  
Financial Reporting Standards

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# *Financial Accounting Standards Board*

## Convergence of Accounting and Financial Reporting Standards

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# *Disclaimer*

*The views expressed in this presentation are my own and do not represent positions of the Financial Accounting Standards Board (FASB).*

*Positions of the FASB Board are arrived at only after extensive due process and deliberations.*

# *Why the Current Focus on Convergence?*

- I. Formation of the IASB
  - Consistent objectives for financial reporting and standard setting
  - Appropriate structure for a standard setting body
    - (a) private-sector
    - (b) independent with independent Board members
  - Provides one standard setter to work with rather than many individual standard setters
- II. Globalization of Enterprises and the Capital Markets
  - The promise of a “cost” savings for all!
- III. Much of the existing or lacking financial reporting guidance (FASB or IASB) that needs improvement is the same
  - It makes sense to work on them together
  - Accounting/Financial Reporting presents a constant learning challenge.

# *How is the Convergence Effort Being Done?*

- I. A project to improve, complete and converge the two Boards' Conceptual Framework is underway.
  - The first due process document is expected to be issued in the summer of 2006.
- II. Working to align agendas — but it's hard to do!
- III. Undertaking Joint Projects where there is one project staff team that brings the same issues to the two boards at approximately the same time. Try to have the same or almost the same due process and final documents.

# *How is the Convergence Effort Being Done?*

- IV. Modified Joint Projects where one board takes the lead to develop a Preliminary Views document that is issued for comment by both boards. It then becomes a Joint Project to develop both an exposure draft and final document.
- V. A few convergence-specific projects.

# *Current FASB Agenda with IASB*

## **I. Joint Projects**

- Conceptual Framework
- Acquisition method (BCII) and Noncontrolling Interests
- Financial Statement Presentation
- Revenue Recognition
- Leasing (to be added in the near future)

## **II. Modified Joint projects**

- Liabilities and Equity (FASB leading)
- Insurance Products (IASB leading)

## **III. Convergence Specific Projects**

- Earnings per Share
- Income Taxes
- Research and Development

## **IV. Research Projects – Joint or Coordinated**

- Consolidation
- Derecognition of financial assets
- Fair value change disclosures.

# *Current FASB Agenda*

## *FASB Projects*

- Fair Value Measurements (IASB to start with the FASB standard)
- Uncertain Tax Positions (IASB to consider adding the project)
- Amendment to Statement 140
- Fair Value Option (IASB already has a similar option in its literature)
- Combinations of Not-for-Profit Organizations
- Postretirement Benefit Obligations — Phase One
- Derivatives Disclosures
- Insurance Risk Transfer
- Subsequent Events

# *Documents About Convergence*

- *International Accounting Standard Setting: A Vision for the Future.* 1998 booklet by the FASB.
- The “Norwalk Agreement.” 2003 agreement entered into by the FASB and the IASB.
- *A Roadmap to Convergence between IFRSs and US GAAP — 2006-2008.* 2006 Memorandum of Understanding between the FASB and the IASB.
- SEC Release 33-8221: *Commission Statement of Policy Reaffirming the Status of the FASB as a Designated Private-Sector Standard Setter* (April 24, 2003).
- SEC Report to Congress: *Report and Recommendations Pursuant to Section 401(c) of the Sarbanes-Oxley Act of 2002 On Arrangements with Off-Balance Sheet Implications, Special Purpose Entities, and Transparency of Filings by Issuers* (June 15, 2005).

# *Key Challenges to Achieve Convergence*

- I. It takes time and costs money.
- II. The convergence effort is new. Prior standard setting and financial reporting had different traditions, heritage, perspectives, objectives and participants. A private sector standard setter with an independent board is new to most of the world.
- III. Developing standards with the right mix of principles and implementation guidance is hard. Writing standards that will consistently communicate to all readers and over time is even harder!
- IV. The effort causes change. People and organizations usually do not like change.
  - Educators, students, financial reporting preparers auditors and users (capital markets), regulators and governments must learn new and different things.

# *The Educators' Challenge*

- I. The Conceptual Framework must be part of the accounting (business school) curriculum.
  - Where does it go in the curriculum?
  - Textbooks need to be developed or changed?
  - How do the Educators get the knowledge to teach the Conceptual Framework?
  - The current project gives an opportunity to learn/educate about the Conceptual Framework.
  
- II. The form and substance of Financial Instruments and transactions involving them have changed tremendously and are continuing to change at fast pace.
  - Where in the business school should students learn about derivatives, puts, calls, forwards, etc.?
  - How to coordinate the information about the instruments and transactions and the accounting for them?

# *The Educators' Challenge*

- III. Measurements and measurement techniques used in accounting are change
  - How to coordinate statistics with accounting?
  - Should Valuation itself be a new part of the business school curriculum?



# The Canadian Experience

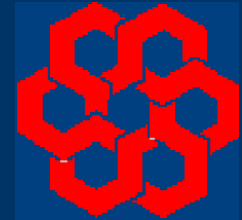
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Own views – not those of AcSB or other staff

# Impact of IASB on AcSB Work



Since 2001:

- Liaison agreement
- Align agendas
- Key debates: NSS/IASB
- More research / “thought pieces” (e.g. measurement)

# Impact of FASB on AcSB Work



- US as major trading partner
- Demand for US harmonization
- US issues become Canadian issues (e.g. Enron)
- Need to keep pace
- Worked together in the past – e.g., Segments

# Recent AcSB Strategy



- **Global convergence** with highest quality US and international standards
- **Harmonization with US** – eliminate significant unjustifiable differences
  - No new Cdn/US differences if possible

# Recent AcSB Strategy

- Need to balance:
  - Topics of global importance
  - US/IASB changes – often stuck in the middle
  - Specific Canadian needs
  - Level of detail
  - Ability of constituents to keep up



# The Future



- AcSB re-examined strategy
  - Do we need a Canadian standard setter?
  - US harmonization or IFRS?
  - Does one size fit all?
- Invitation to Comment 2004

# The international environment

- International – IASB
  - Strong, comprehensive standards
  - Less rule-oriented than US
  - Canada actively involved
- US – FASB
  - Major standard setting capability
  - N. American environment – harmonization
- IASB and FASB working closely together – road-map

# “One size does not necessarily fit all”

- Separate strategies for the major categories of reporting entities
  - public enterprises (< 1% in total – 10% SEC registrants)
  - private enterprises; and
  - not-for-profit organizations
- Not possible to address divergent needs of different categories within a single strategy

# Publicly accountable enterprises

- Converge Canadian GAAP with IFRSs



- US GAAP an appropriate alternative - if regulators agree



- Require public companies to adopt either IFRSs (or US GAAP) following a transitional period

- Canadian GAAP eliminated as a separate basis of financial reporting

# Transition to IFRS

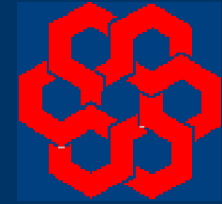
- Final plan Approved by AcSB (Mar 2006)
- Implementation begins April 1 2006
- IFRS Conversion April 1 2011
- How do we get there – one-time or phased approach?
- Significant educational needs

# Participating in global convergence



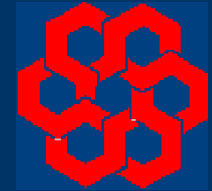
- Issue proposals concurrent with IASB/FASB –  
E.g., Business combinations
  - Only re-debate issues of concern
- Participation in international projects
  - Conceptual Framework
- Research
  - Measurement Objectives – Initial Measurement
  - Disclosure Framework
  - Extractive Industries
- Commenting on IASB proposals

# Monitoring IASB activities



- Convergence projects (covered previously)
- IASB-led projects – short-term convergence
  - Borrowing costs
  - Government grants
  - Joint ventures
  - Segment reporting
- Impairment
- Investment properties
- Intangible assets?
- Post-retirement benefits?

# Monitoring IASB activities



- Other IASB projects
  - Liabilities – amendments to IAS 37
  - Puttable instruments
  - Emission trading schemes
  - First-time adoption of IFRS: Investment in a subsidiary
  - Share-based payment: vesting and cancellations
  - Small and medium-sized entities

# Private businesses

- Research into financial reporting needs to identify:
  - who the financial statement users are
  - what information they need
  - what reporting model best satisfies those needs



**Further information**

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